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NEA FOR FRONT OFFICE; NEA/IPA FOR
WILLIAMS/GREENE/WATERS/WAECHTER; NSC FOR
ABRAMS/DORAN/LOGERFO; TREASURY FOR NUGENT/ADKINS

E.O. 12958: DECL: 06/22/2016
TAGS: ECON PREL KWBG KPAL IS
SUBJECT: PALESTINIAN COMPANIES LEAVING THE WEST BANK AND
GAZA

REF: GMP20060619741002

Classified By: Consul General Jake Walles, Reasons 1.4 (b) and (d).

¶1. (C) Summary: Some Palestinian companies are moving their production facilities from Gaza and the West Bank to Egypt and Jordan, according to Palestinian businessmen, on account of frequent and prolonged closures of the Karni/al-Mintar crossing and limited throughput. Due to non-payment of Palestinian Authority (PA) salaries, many Palestinian consumers are choosing to buy cheaper, low-quality goods from other countries. Palestinian businessmen also report that their Israeli partners are urging them to relocate outside Gaza. End Summary.

Industry Exodus

¶2. (SBU) Palestinian Federation of Industries Deputy Chairman Sameh al-Khouzendar, in a June 18 press statement, warned that Palestinian industrial companies are fleeing in search of better business conditions in Jordan and Egypt. Fifty textile factories have re-established their production facilities in Jordanian and Egyptian qualifying industrial zones (QIZ), he said. Textiles in Gaza, once employing 40,000 people, had been the hardest hit, followed by the furniture manufacturing sector.

¶3. (C) Khouzendar blamed this trend on the closures at the Karni/al-Mintar crossing, which have created high transportation costs. He also pointed to lower disposable income, a result of unpaid PA salaries; outstanding PA debts to the private sector (Note: valued at USD 650 million); and donors canceling or suspending projects. Economic losses have also translated into brain-drain, as family-owned and operated businesses are relocating, taking with them experienced senior managers and well-qualified family members.

Lost Market Share

¶4. (SBU) In a local press article on Khouzendar's statement (reftel), President of the Wood Industries Union (Gaza) Hisham al-Uwayni stated that only five percent of the furniture factories and workshops in Gaza at the end of 2005 were still operating. He said that the wood industries sector in Gaza once employed 6,000 workers but now employs

fewer than 1,500 workers. Uwayni described how Israeli importers of furniture had turned to China and Turkey for cheaper and lower quality products. Concurrently, cash-strapped Palestinians are choosing to buy these goods, rather than Palestinian-made furniture, which had become expensive on account of the high costs associated with transporting raw material inputs across the checkpoints into Gaza.

Same Business, Different Country

¶5. (C) Development Alternative Inc. (DAI) economist Said Abu Hijleh told Econoff June 15 that Israeli companies have recommended relocation to their Palestinian counterparts. Unable to receive consignments from their partners in Gaza while watching just-in-time orders to onward customers go to competitors, the Israeli companies see the advantage of helping Palestinian companies maintain their business ties, but from a more favorable location. Khouzendar told EconSpecialist June 22 that Israeli companies prefer Jordan as a new base for their Palestinian business contacts, because it is easier for Israelis to go there.
WALLES